



Parker Reports Annual Sales Up 11 Percent, Earnings Affected by U.S. Industrial Slump

July 30, 2001

CLEVELAND, July 30 /PRNewswire/ -- As the manufacturing recession continues, Parker Hannifin Corporation (NYSE: PH) today said the fourth quarter, which usually is a strong one, weighed on the company's full-year results. Quarterly net income excluding costs associated with operating realignments and other corporate accruals was \$66.8 million, or 57 cents per diluted share, compared with last year's fourth-quarter income of \$113 million, or 99 cents per diluted share. For the full year, the company earned \$340.8 million, or \$2.96 per diluted share, compared with \$368.2 million, or \$3.31 per diluted share, in the prior year. The current-year results reflect a net benefit of five cents per diluted share from non-recurring items, including a gain on the sale of real estate, offset by the previously noted operating-realignment actions and accruals; and the early retirement of debt. These results also reflect higher interest expense and nearly 4 million additional shares outstanding issued for acquisitions.

(Photo: <http://www.newscom.com/cgi-bin/prnh/19990816/PHLOGO>)

Acquisitions contributed much of the increase in annual revenues, which reached \$5.98 billion, up 11 percent from last year's sales record. "The acquisitions we've made bring tremendous potential, not only contributing to the top line, but strategically and operationally," said Parker CEO Don Washkewicz.

Noting that American industry is experiencing its first major setback since the early 90s, Washkewicz said, "We've had to be fast and decisive in our response to this downturn. Our manufacturing facilities were quick to adjust to depressed market conditions, by consolidating operations, accelerating acquisition integration and implementing spending cuts in all areas. These immediate moves are painful and costly, but the flexibility to align ourselves with demand keeps us strong and focused."

Operating Results & Supply Chain Initiatives

For the quarter and the year, Parker Aerospace led the company's operating performance with higher income and margins attributed to operating realignments and lean initiatives made throughout the business during fiscal year 2000, when its major markets were down. Operating income in the Aerospace segment was up more than 20 percent for the year, with an annual operating margin of 18.2 percent.

Conditions and comparisons were tougher for both the company's North American and International industrial markets, particularly in the fourth quarter. In the International Industrial business, operating income without operating realignment costs was 17.3-percent lower in the quarterly comparison, but 5.5-percent higher annually, at a 7.7-percent return on sales. Quarterly operating income without realignment items in the North American Industrial business was down 57.5 percent, while the annual income comparison was 11.4-percent lower. For the year, the North American Industrial margin was 11.4 percent.

The company noted that with this report, further detail is provided with the addition of an "Other" segment, which includes businesses outside of the Industrial and Aerospace segments. This new classification includes the company's climate controls and Astron businesses, for which combined annual revenue is \$556.8 million. Operating income without realignment items for this segment was down 16.7 percent for the quarter and 9.3 percent for the year, with an annual return on sales of 7.7 percent.

"Beyond actions we've taken for the current climate, we're also taking aggressive steps across our supply chain to improve operating margins for the long term," said Washkewicz. "Specifically, we're securing company-wide procurement contracts. We are expanding lean initiatives worldwide; implementing those that have proven so effective at Aerospace everywhere else in the company. The fastest-paying rewards are in customer service, inventory management and better asset utilization."

"And we continue to build on our greatest growth assets -- our people, our products and our ability to provide engineered systems and solutions that yield greater returns for us and our customers."

Outlook

The company noted it remains cautious in its outlook for the next quarter and the fiscal year. Going forward, with its early adoption of FAS 142 provisions, the company will not amortize goodwill, accounting for 44 cents in the new fiscal year. After this effect, Parker said it expects first-quarter earnings to be between 50 and 65 cents per share, and, with the beginnings of an economic recovery anticipated in the second half, fiscal year 2002 earnings are expected to range from \$2.90 to \$3.35 per share.

In addition to providing earnings estimates, Parker advises shareholders to note order trends, for which the company makes a disclosure several business days after the conclusion of each month. This information is available on the company's investor information web site, at www.phstock.com.

With annual sales of \$6 billion, Parker Hannifin is the world's leading diversified manufacturer of motion and control technologies and systems, providing precision-engineered solutions for a wide variety of commercial, mobile, industrial and aerospace markets. The company employs more than 45,000 people in 46 countries around the world. For more information, visit the company's web site at www.parker.com, or its investor information site at www.phstock.com.

Forward-Looking Statements:

Forward-looking statements contained in this and other written and oral reports are made based on known events and circumstances at the time of release, and as such, are subject in the future to unforeseen uncertainties and risks. All statements regarding future performance, earnings projections, events or developments are forward-looking statements. It is possible that the company's future performance and earnings projections may differ materially from current expectations, depending on economic conditions in North American industrial markets and the company's ability to achieve anticipated benefits associated with announced inventory reductions and restructuring and acquisition-integration activities. Among the other factors which may affect future performance are: changes in business relationships with and purchases by or from major customers or suppliers, including delays or cancellations in shipments; competitive market conditions and resulting effects on sales and pricing; increases in raw-material costs that cannot be recovered in product pricing; and global economic factors, including currency exchange rates, difficulties entering new markets and general economic conditions such as interest rates. In each quarterly earnings report, the company intends to provide a range stating expected earnings per share for the succeeding quarter and full fiscal year, reflecting these ranges as estimates of diluted earnings per share before unusual items. The company makes these statements as of the date of this disclosure, and while it undertakes no obligation to update them, reserves the right to update its earnings projections for any reason during the quarter, including the occurrence of material events.

PARKER HANNIFIN CORPORATION - JUNE 30, 2001 CONSOLIDATED STATEMENT OF INCOME

(Dollars in thousands except per share amounts)	Three Months Ended June 30,		Year Ended June 30,	
	2001	2000	2001	2000
Net sales	\$1,484,796	\$1,488,702	\$5,979,604	\$5,385,618
Cost of sales	1,195,520	1,143,041	4,728,156	4,186,850
Gross profit	289,276	345,661	1,251,448	1,198,768
Selling, general and administrative expenses	188,346	156,347	679,963	575,906
Other income (deductions):				
Interest expense	(19,344)	(16,041)	(90,362)	(59,183)
Interest and other income, net	(5,062)	(796)	52,473	(1,492)
	(24,406)	(16,837)	(37,889)	(60,675)
Income before income taxes	76,524	172,477	533,596	562,187
Income taxes	27,166	59,505	189,426	193,955
Income before extraordinary item	49,358	112,972	344,170	368,232
Extraordinary item - extinguishment of debt			(3,378)	
Net income	\$49,358	\$112,972	\$340,792	\$368,232
Earnings per share:				
Basic earnings per share before				

extraordinary item	\$.43	\$1.00	\$3.01	\$3.34
Extraordinary item - extinguishment of debt	-	-	(.03)	-
Basic earnings per share	\$.43	\$1.00	\$2.98	\$3.34
Diluted earnings per share before extraordinary item	\$.42	\$.99	\$2.99	\$3.31
Extraordinary item - extinguishment of debt	-	-	(.03)	-
Diluted earnings per share	\$.42	\$.99	\$2.96	\$3.31
Average shares outstanding during period - Basic	114,843,825	113,691,025	114,304,977	110,330,711
Average shares outstanding during period - Diluted	115,615,197	114,481,201	115,064,447	111,244,632
Cash dividends per common share	\$.18	\$.17	\$.70	\$.68

BUSINESS SEGMENT INFORMATION BY INDUSTRY

(Dollars in thousands)	Three Months Ended		Year Ended	
	2001	June 30, 2000	2001	June 30, 2000
Net sales				
Industrial:				
North America	\$691,119	\$716,886	\$2,941,697	\$2,486,372
International	311,117	316,933	1,275,516	1,175,880
Aerospace	323,365	297,218	1,205,624	1,138,328
Other	159,195	157,665	556,767	585,038
Total	\$1,484,796	\$1,488,702	\$5,979,604	\$5,385,618
Segment operating income				
Industrial:				
North America	\$37,990	\$116,100	\$322,786	\$379,251
International	14,755	22,086	92,561	84,317
Aerospace	60,988	54,597	218,851	175,710
Other	10,988	14,446	41,451	47,084
Total segment operating income	\$124,721	\$207,229	\$675,649	\$686,362
Corporate general and administrative expenses	29,970	16,075	85,738	58,210
Income from operations before interest expense and other	94,751	191,154	589,911	628,152
Interest expense	19,344	16,041	90,362	59,183
Other	(1,117)	2,636	(34,047)	6,782
Income before income taxes	\$76,524	\$172,477	\$533,596	\$562,187

CONSOLIDATED BALANCE SHEET

(Dollars in thousands)	June 30,	2001	2000
Assets			
Current assets:			
Cash and cash equivalents		\$23,565	\$68,460
Accounts receivable, net		922,325	840,040
Inventories		1,008,864	974,196
Prepaid expenses		39,486	32,706
Deferred income taxes		91,439	73,711
Assets held for sale		110,683	164,000
Total current assets		2,196,362	2,153,113
Plant and equipment, net		1,548,688	1,340,915
Other assets		1,592,611	1,152,271
Total assets		\$5,337,661	\$4,646,299
Liabilities and shareholders' equity			
Current liabilities:			
Notes payable		\$546,502	\$335,298
Accounts payable		367,806	372,666
Accrued liabilities		436,947	394,131
Accrued domestic and foreign taxes		61,874	84,208
Total current liabilities		1,413,129	1,186,303
Long-term debt		857,078	701,762
Pensions and other postretirement benefits		318,527	299,741
Deferred income taxes		131,708	77,939
Other liabilities		88,304	71,096
Shareholders' equity		2,528,915	2,309,458
Total liabilities and shareholders' equity		\$5,337,661	\$4,646,299

CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in thousands)	Year Ended June 30,	
	2001	2000
Cash flows from operating activities:		
Net income	\$340,792	\$368,232
Depreciation and amortization	264,527	206,408
Net effect of extraordinary loss	3,378	-
Net change in receivables, inventories, and trade payables	(42,557)	(3,346)
Net change in other assets and liabilities	(14,729)	(21,181)
Other, net	(19,246)	(12,073)

Net cash provided by operating activities	532,165	538,040
Cash flows from investing activities:		
Acquisitions (less cash acquired of \$10,143 in 2001 and \$1,158 in 2000)	(583,254)	(351,011)
Capital expenditures	(334,748)	(230,482)
Other, net	98,174	1,784
Net cash used in investing activities	(819,828)	(579,709)
Cash flows from financing activities:		
Net proceeds from common share activity	15,971	1,202
Net proceeds from debt	308,087	154,621
Dividends	(79,921)	(74,963)
Net cash provided by financing activities	244,137	80,860
Effect of exchange rate changes on cash	(1,369)	(4,008)
Net (decrease) increase in cash and cash equivalents	(44,895)	35,183
Cash and cash equivalents at beginning of period	68,460	33,277
Cash and cash equivalents at end of period	\$23,565	\$68,460

SOURCE Parker Hannifin Corporation

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